

PX73

HIGHLY CONFIDENTIAL**TELEGRAM GROUP INC.****Fourth Supplemental Memorandum to the Staff of
THE SECURITIES AND EXCHANGE COMMISSION****July 25, 2019**

On behalf of Telegram Group Inc. (“Telegram”), we respectfully submit this memorandum setting forth additional information that supplements our previous Memorandum dated June 26, 2018, our Supplemental Memorandum dated November 20, 2018, our Second Supplemental Memorandum dated February 27, 2019 and our Third Supplemental Memorandum dated March 18, 2019 (together, the “Prior Memoranda”).¹

During our meeting with the Staff on July 18, 2019, we offered to provide this document summarizing key aspects of the TON Blockchain. As discussed with the Staff and in our prior submissions, Telegram is open to removing the TON Reserve’s Gram-buying function if the Staff believes that its inclusion would cause Grams to be considered securities under *Howey*.

**Distribution of
Grams**

The allocation of the initial supply of 5 billion Grams at the Network Launch Date will be as follows:

- **58%** will be transferred to purchasers in the Private Placement
 - Round 1: 2,251,291,798.60650 Grams (subject to lock-up)
 - Round 2: 639,079,959.28967 Grams (not subject to lock-up)
- **4%** (200,000,000.00000 Grams) will be transferred to the development and management team (subject to lock-up)
 - Pavel and Nikolai Durov will each receive 1% (50,000,000.00000 Grams each)
- **10%** (500,000,000.00000 Grams) will be transferred to the Incentives Pool
- **28%** (1,409,628,242.10383 Grams) will be transferred to the TON Reserve

¹ This memorandum contains highly confidential information, and in the event it is determined to be an “agency record” within the meaning of the Freedom of Information Act, 5 U.S.C. § 552, as amended (“FOIA”), we request confidential treatment of it pursuant to FOIA and the applicable rules of the Commission, including but not limited to Rule 83 of the Commission’s Rules on Information and Requests, 17 C.F.R. § 200.83. Unless otherwise indicated, all capitalized terms have the meanings ascribed to them in the Prior Memoranda. The factual statements contained herein are based on information provided by Telegram. We make no representation or guaranty that our current understanding of Telegram’s expected future action or inaction will remain unchanged. We reserve the right to further supplement the information contained herein as necessary to ensure the accuracy of such information.

TON Foundation

- The TON Foundation will be a not-for-profit organization organized in the Cayman Islands.
 - The TON Foundation will be governed by a board of directors. Pavel and Nikolai Durov will be the initial board members and may elect to add additional board member(s) following launch.
 - The TON Foundation will not have any ability to change the TON Blockchain code, its validation process or parameters; account(s) held by the TON Foundation will be algorithmically restricted from staking Grams as a validator or voting on the parameters of the TON Blockchain.
 - The TON Foundation's role will be limited to the following three activities: (1) selling Grams through the TON Reserve and utilizing the proceeds from any sales of Grams from the TON Reserve in the manner described below; (2) awarding Grams from the Incentives Pool in the manner described below; and (3) publishing non-binding opinions and research results regarding the TON Blockchain's development and policy (similar to the Ethereum Foundation).
-

Incentive Payments

- Grams held in the Incentives Pool will be held by a wallet (separate from the TON Reserve account) controlled by the TON Foundation.
 - Approximately 50% of the Grams held in the Incentives Pool will be distributed in the days/weeks immediately following the Network Launch Date to users of Telegram Messenger as an incentive to download and use the TON Wallet to further support the usage of Grams as a viable currency.
 - Remaining Grams held in the Incentives Pool may be distributed by the TON Foundation to third-party developers in accordance with the TON Foundation's mission to promote and support the decentralized TON Blockchain in a manner that furthers the usage of Grams as a viable currency. Decisions regarding the distribution of these Grams will be made by the board of directors of the TON Foundation.
-

TON Reserve Selling Function

- The TON Foundation will determine whether to sell Grams by comparing the Reference Price and current market price of Grams. In the event that the market price of Grams exceeds the Reference Price, the TON Foundation may elect (but is not required) to sell Grams from the TON Reserve on one or more exchanges (*e.g.*, Coinbase), where the lowest acceptable bid price will be the Reference Price. Telegram is still considering the exchange(s) that the TON Foundation will partner with for this process and is open to considering the Staff's views in this regard.
 - The "**Reference Price**" for Grams is based on the following formula: $p_n = 0.1 \times (1 + 10^{-9})^n$ USD, where the price of the first Gram sold is set at 0.1 USD and "n" represents the number of Grams that have been previously issued (assuming that Grams issued to developers and as incentive payments have been allocated in full). At Network Launch, the Reference Price for Grams will be \$3.62475487, meaning the TON Reserve may only sell Grams at a price equal to or greater than \$3.62475487.
-

-
- The TON Foundation will retain fiat proceeds of any Grams sold by the TON Reserve (“**Accumulated Funds**”), which may be spent (i) to cover the TON Foundation’s operating costs and expenses, and (ii) in the form of rewards for the promotion and support of technological innovations for the good of humanity, including but not limited to blockchain projects, artificial intelligence, or other endeavors undertaken for the advancement of society. The aforementioned activities of the TON Foundation will be memorialized in its charter.
-

**Consensus
Mechanism**

- The TON Blockchain will utilize a “proof-of-stake” consensus approach to validating blocks, in which third-party validators digitally sign blocks that are valid. If at least two-thirds of validators reach consensus on the validity of the block, a new block is created.
 - Approximately once a month, any Gram-holder, or group of Gram-holders, seeking to be a validator for the next validation period can stake an amount of Grams. A pre-determined number of the largest stakers will be selected to be validators for that period. The selected validators, among other responsibilities, validate that proposed blocks include legitimate transactions, perform the computations requested by smart contracts, and digitally sign blocks that are valid.
 - As a reward to validators for validating new blocks on the TON Blockchain, validators will be automatically issued newly-minted Grams by the TON Blockchain. These newly-minted Grams will increase the total supply of Grams. Telegram initially expects that these rewards will be set so that they amount to approximately 20% of the collective validator stakes per year, provided validators diligently perform their duties. After launch, the size of the reward can be changed by the affirmative vote of two-thirds of validators in the relevant period. The TON Blockchain will also have a parameter that sets the maximum percentage of the total supply of Grams that can be locked in validator stakes during each validation period. Telegram expects that this parameter will set at 10% at launch, but it is a configurable parameter that can be changed by the affirmative vote of two-thirds of validators in the relevant period. As a result, assuming no change in the parameters at launch, Telegram expects that the total supply of Grams will increase by approximately 2% per year (20% of 10%). Essentially, this increase represents a payment made to validators by all members of the community for performing the validation function. On the other hand, if a validator incorrectly validates a block, a part or all of its stake will be forfeited, with the majority being “burned”, decreasing the total supply of Grams, and a small portion awarded to the party who discovered the error.
 - Telegram employees (including Pavel and Nikolai Durov) will be contractually restricted from collectively staking more than five percent (5%) of the total Grams staked in any validation round. The TON Foundation cannot be a validator and the Grams held in the TON Reserve or the Incentive Pool cannot be staked in the validation process.
-

We thank the Staff for its continued consideration of these matters.

* * * *